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No. 06-1001

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SUPREME COURT, U.S.

IN THE

Supreme Court of the United States

JEAN ALEXANDER COSMETICS, INC.,

Petitioner,

v.

L'OREAL USA, INC.;
REDKEN 5TH AVENUE, N.Y.C.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED BY PETITIONER

1. Whether the Court of Appeals erred when it held that a party may be collaterally estopped on an issue that the party had neither lost nor had the burden of proving in a prior litigation?

2. Whether the Court of Appeals erred when it ruled that a party may be collaterally estopped by dicta contained in a prior opinion?

3. Whether the Court of Appeals was correct in holding that a party may be collaterally estopped in a trademark infringement case by an earlier determination in a trademark cancellation proceeding when there is a great public interest in a marketplace free of confusion present in the infringement litigation?

4. Whether the Court of Appeals erred when it held that a prevailing party in litigation before the Trademark Trial and Appeal Board may appeal the Board's decision to the Federal Courts in order to excise portions of the Board's opinion that it finds unsatisfactory?

RESPONDENTS' OBJECTIONS TO QUESTIONS PRESENTED

Respondents object to Question 2 in that it mischaracterizes and distorts the opinion and decision of the Court of Appeals. The Court of Appeals determined whether a finding that had been fully litigated and constituted an alternate, but independently sufficient, basis for a judgment should be deemed necessary to a decision for purposes of collateral estoppel.

Respondent objects to Questions 3 inasmuch as the opinion and decision of the Court of Appeals did not address the merits of the case, including whether or not confusion exists.

Respondent objects to Question 4. The opinion of the Court of Appeals merely explained the circumstances under which a prevailing party to a proceeding before the Trademark Trial and Appeal Board may appeal.

STATEMENT PURSUANT TO RULE 29.6

L'Oréal, a société anonyme headquartered in Paris, France, owns 100% of the stock of L'Oréal USA, Inc. which, in turn, has a 100% ownership interest in Redken 5th Avenue, NYC LLC.

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SUMMARY OF ARGUMENT[1]

Petitioner provides no compelling reason for the Court to grant its petition for a writ of certiorari. It does not substantively address any of the traditional reasons for doing so. *See* Sup. Ct. R. 10. Petitioner's brief is no more than a rehash of petitioner's arguments on the merits that present the same positions that have been flatly rejected by every tribunal and court throughout the history of this litigation.

The decision of the Court of Appeals for the Third Circuit is not in conflict with the decision of the Court of Appeals for any other circuit. To the extent the potential exists for a conflict, it is respectfully submitted that this Court need not anticipate one, but should await an actual conflicting decision before exercising its discretion. *See* 9-11, *infra*.

The decision of the Court of Appeals does not decide an important federal question in a way that conflicts with a decision by a state court of last resort. It decides a procedural question under a unique set of facts that expressly limits its holding to federal law, with no effect on how state courts may choose to address the issue.

The decision of the Court of Appeals is wholly consistent with this Court's precedent and does not depart from the accepted and usual course of judicial proceedings. Indeed, the very decisional law upon which petitioner relies refutes

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1. Respondents have not burdened the Court with a restatement of the case but object to petitioner's mischaracterization of the underlying opinion of the Trademark Trial and Appeal Board as an "advisory opinion" or "dicta," and to the explanation of appealability by the Court of Appeals as referring to dissatisfaction "for any reason with the language of the TTAB's opinion." Neither is accurate.

its position. There is no reason, and certainly none cited by petitioner, that calls for an exercise of this Court's supervisory power.

The Court of Appeals properly stated the rule of law. The four-step test upon which it relies for determining when application of the doctrine of issue preclusion (collateral estoppel) is appropriate is the same rule of law articulated by this Court and upon which petitioner relies. The opinion accompanying the decision of the Court of Appeals was comprehensive, thorough and correct. Its application of the doctrine of collateral estoppel was consistent with long-standing precedent, including of this Court. Had it decided otherwise, it would have encouraged parties to litigate as many issues as they could and not be bound by and, therefore, remain free to re-litigate, the decision on any or all of them. Even had the Court of Appeals misapplied a properly stated rule of law, which it did not, that would not compel this Court to grant the petition. *See* Sup. Ct. R. 10.

Petitioner asserts that this Court should grant a writ of certiorari because the decision of the Court of Appeals "represents an extraordinary departure from the doctrine of [collateral estoppel] as it has been enunciated and applied by [this] Court." Petition for Writ of Certiorari ("Pet.") 7. Nowhere in its petition, however, does petitioner identify any decision of this Court that conflicts with that of the Court of Appeals.

Petitioner asserts that this Court never has endorsed the application of collateral estoppel to a party that did not lose or did not have the burden of proof on that issue in the earlier proceeding. Yet, the very precedent on which petitioner relies,

Partmar Corp. v. Paramount Pictures Theatres Corp., 347 U.S. 89 (1954), did just that. Petitioner also asserts that the Court of Appeals gave preclusive effect to dicta — which it argues would be a considerable departure from this Court's precedent — when the focus and expressly stated purpose of the decision was to distinguish from dicta a ground that had been thoroughly litigated and was the subject of a detailed and well reasoned written opinion. In further reliance on *Partmar Corp.*, among other cases, petitioner argues that the Court of Appeals mistakenly held that petitioner could have appealed the finding by the Trademark Trial and Appeal Board that no likelihood of confusion existed despite the fact that it prevailed on that issue. In *Partmar Corp.*, however, this Court held that a party *could* appeal an issue on which it prevailed.

Petitioner then argues that the Court of Appeals erred in not considering the public policy behind the avoidance of confusion in the marketplace. It makes that argument despite the Trademark Trial and Appeal Board's finding that there is no likelihood of confusion. Moreover, the matter came to the Court of Appeals from the grant of a motion under Rule 12(b)(6) of the Federal Rules of Civil Procedure. There were no independent findings of fact by the district court. It is difficult to see how such an argument may be made at this time or how it addresses any of the considerations contained in Rule 10 of this Court's rules governing review on certiorari.

This would be a uniquely poor case over which to exercise the Court's supervisory authority. The facts make it crystal clear that the lower tribunal carefully considered and analyzed alternative, independently sufficient bases for its decision, each integral to the case and fully litigated by the

parties. The law is inextricably interwoven with the doctrine of *judicial estoppel*, which was briefed by the parties but not reached by the district court or the Court of Appeals. It would be difficult for this Court to set any clear precedent that would not be severely limited to its facts.

ARGUMENT

Question 1

The Court of Appeals properly stated the rule of law. The application of collateral estoppel requires satisfaction of four requirements: (1) the identical issue was previously adjudicated; (2) the issue was actually litigated; (3) the previous determination was necessary to the decision; and (4) the party being precluded from relitigating the issue was fully represented in the prior action. *Henglein v. Colt Indus. Operating Corp.*, 260 F.3d 201, 209 (3d Cir. 2001), and *Sebrowski v. Pittsburgh Press Co.*, 188 F.3d 163, 169 (3d Cir. 1999) (also considering whether the party being precluded "had a full and fair opportunity to litigate the issue in question in the prior action").

Petitioner, citing *Montana v. United States*, 440 U.S. 147, 153-55 (1979), does not argue that the Court of Appeals misstated the rule of law. Pet. 10. Instead, it conflates the fourth requirement with having the burden of proof and argues that a party cannot be collaterally estopped from litigating an issue where it neither lost on that issue nor where it did not have the burden of proving that issue in the earlier litigation. Pet. 7. Petitioner further argues that a party without the burden of proof does not receive a full and fair opportunity to litigate the issue. It then urges that the Court of Appeals' holding to the contrary is "completely contrary to all existing

Supreme Court precedent . . . ," although it fails to cite any such precedent. Pet. 8, 10. With respect to losing in the prior litigation,[2] petitioner states, "[t]here are no cases in Supreme Court jurisprudence where collateral estoppel is held to preclude a party from litigating an issue that its *opponent* in prior litigation lost." Pet. 9 (emphasis in original). Petitioner misstates the law with respect to each element of its argument.

There is no basis — factual or legal — for petitioner's assertion that a party defending a claim does not have the opportunity fully and fairly to litigate that claim. What greater incentive could there be for a trademark owner to defend a cancellation proceeding than to know that if it loses its trademark registration will be cancelled? Although petitioner did not have the burden of proof on the issue of likelihood of confusion, it was represented by counsel and fully litigated that issue in the cancellation proceeding in which it "filed its answer denying the allegations of priority and likelihood of confusion between the marks . . . , participated in discovery, cross-examined [respondents'] witnesses, submitted trial evidence, briefed the case on the merits, and attended an oral hearing before the Board."[3] Petitioner's Appendix ("Pet. App.") 56a; *see also* Pet. App. 16a ("There

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2. Petitioner confuses its own inability to find authority in which a party without the burden of proof on an issue subsequently is collaterally estopped from relitigating that issue with a rule of law that would require a party to have the burden of proof before it can be collaterally estopped.

3. Nothing prohibited petitioner from admitting that likelihood of confusion existed and defending solely on the ground of priority. Instead, it vigorously litigated the issue of likelihood of confusion for four years, even going so far as to assert it as an affirmative defense.

is no question that likelihood of confusion was a central issue in the cancellation proceedings. It was the focus of the parties' pleadings and had been litigated extensively over the course of four years.").

There is no bar to applying collateral estoppel to a party that did not have the burden of proof. Petitioner confuses the opportunity to litigate an issue (here, it was fully litigated) with having the burden of proof on that issue. For example, under the doctrine of "offensive collateral estoppel," the application of which under appropriate circumstances was approved by this Court in *Parklane Hosiery Co. v. Shore*, 439 U.S. 322 (1979), estoppel may be applied by a plaintiff who prevailed in an earlier action against a *defendant* (or its privy) who lost in that action. 439 U.S. at 329. In such cases, collateral estoppel will be applied where the party that originally lost on an issue did not have the burden of proof.

Petitioner's assertion that this Court has never approved the application of collateral estoppel against a party that prevailed in the earlier action (or, as petitioner states, where the party's opponent lost in the earlier action) also misstates the law. *See Partmar Corp. v. Paramount Pictures Theatres Corp.*, 347 U.S. 89 (1954). There, Paramount leased a theatre to and entered into a film franchise agreement with Partmar in California. *Id.* at 92. Subsequently, a decree was entered by the Southern District of New York against Paramount and other motion picture companies enjoining as violations of the Sherman Act further performance by Paramount of any existing franchise agreement. *Id.* at 93. Paramount terminated the franchise agreement with Partmar because of the injunction which, in turn, terminated the lease. Paramount then commenced an action against Partmar, which had refused to leave the premises, to recover possession of the

theatre (claiming that the illegality of the franchise agreement permitted it to terminate both agreements). *Id.*

Partmar answered by asserting various defenses and, as pertinent to petitioner's argument, by bringing antitrust counterclaims alleging a conspiracy between Paramount and other motion picture companies (which resulted in the imposition of excessive terms and conditions in the lease and franchise agreement). *Id.* at 93-94. The court ordered that Paramount's causes of action and Partmar's counterclaims be tried separately. *Id.* at 94-95. Prior to trial, this Court set aside the Southern District of New York's decree concerning the illegality of the franchise agreements. *Id.* at 95.

The trial proceeded with Paramount in the anomalous position of having to prove that its agreements were illegal in order for it to prevail on its claims. *Id.* Partmar contended at trial that the lease and franchise agreements did not violate the Sherman Act. *Id.* at 96. The court agreed. *Id.* at 97. The court also determined, however, that Partmar could not recover on its counterclaims and dismissed those claims with prejudice. *Id.* at 97-98. Partmar appealed the dismissal of the counterclaims, but not the judgment on Paramount's claims. *Id.* at 99.

On review on certiorari, this Court addressed the question of whether the dismissal of the counterclaims was proper. *Id.* at 91. The Court held that because the issue of whether Paramount had violated the Sherman Act as a result of entering into the franchise agreement had been litigated and decided in the action on Paramount's claims, Partmar would have been collaterally estopped from relitigating that issue in a later proceeding and, therefore, dismissal of Partmar's

counterclaims was not improper. *Id.* at 100-01. Thus, this Court upheld the application of collateral estoppel in a situation where the party against whom collateral estoppel was to be applied neither had the burden of proof nor lost in the earlier litigation. Here, the decision of the Court of Appeals giving collateral estoppel effect to the Trademark Trial and Appeal Board's decision on the issue of likelihood of confusion was not inconsistent with this Court's precedent.

Question 2

The decision of the Court of Appeals and accompanying opinion took great pains to distinguish an alternative, independently sufficient ground for a decision from mere dicta. Petitioner ignores that important distinction, conveniently labels a portion of the Court of Appeals' opinion as "dicta" and makes such arguments as "[t]he Court of Appeals directs the litigants and the courts to glean from the dicta in prior opinions whether an issue was 'carefully considered' by the court in the prior litigation," and "the Third Circuit ... now holds that dicta may serve as the basis for collateral estoppel." Pet 17.[4] Petitioner concludes by stating that this Court's intervention is necessary "to square the Third Circuit's interpretation of the 'necessary' prong of the *Montana* test with the other circuits." Pet. 19. Again, petitioner misstates and mischaracterizes the Court of Appeals' decision.

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4. Petitioner's position is no different from arguing that the order in which statements appear in a court's opinion determines what is dicta. Had the opinion of the Trademark Trial and Appeal Board addressed likelihood of confusion before addressing priority, would that fortuitous event alone have determined what is binding and what is dicta?

Contrary to petitioner's assertions, the Court of Appeals was clear that the very purpose of the "necessity" requirement is to *prevent* dicta from being given preclusive effect: "[t]he necessity requirement also ensures that preclusive effect is not given to determinations that did not 'receive close judicial attention . . . or that were unappealable by virtue of being incidental to a decision." Pet. App. 15a. The Trademark Trial and Appeal Board's decision regarding the likelihood of confusion did not raise any concerns about dicta because "likelihood of confusion was an important issue in the case and, in fact, [the TTAB] intended its determination that there was no likelihood of confusion to be controlling if its holding on priority were overturned on appeal." Pet. App. 16a. Thus, the question before the court was never whether dicta should be given preclusive effect — clearly it should not — but "whether a finding that is an alternate, but independently sufficient, basis for a judgment should be deemed necessary to a decision for the purposes of collateral estoppel." Pet. App. 16a-17a. The Court of Appeals, observing that "[c]ourts routinely decide cases on multiple grounds, each of which has been fully litigated and given careful consideration due to their potentially dispositive role in the case," held that the interests served by the "necessity" requirement are not compromised by giving preclusive effect to alternative holdings and, therefore, such alternative holdings may form the bases for collateral estoppel. Pet. App. 22a, 26a.

In making that decision, the Court of Appeals for the Third Circuit joined the Second, Seventh, Ninth and Eleventh circuits in deciding that preclusive effect should be given to alternative holdings. Pet. App. 18a. The Fourth, Fifth and District of Columbia circuits each have recognized that giving preclusive effect to alternative holdings is appropriate under

suitable circumstances. Pet. App. 19a; *Yamaha Corp. of Am. v. United States*, 961 F.2d 245, 255 (D.C. Cir. 1992). Here, the Court of Appeals for the Third Circuit cited to cases from the Tenth and Federal Circuits indicating that it did not believe that those circuits would give preclusive effect to alternative holdings. Pet. App. 19a. In the cited Federal Circuit case, however, the court did not adopt a general rule against applying collateral estoppel to alternative holdings, but merely held that whether estoppel should apply would depend on the facts of the case. *Comair Rotron, Inc. v. Nippon Densan Corp.*, 49 F.3d 1535, 1539 (Fed. Cir. 1995). It declined to apply collateral estoppel to an alternative holding in that case because the issue underlying that holding had not been fully litigated. *Id.* at 1539-40 (Rader, J., concurring) (discussing background of the earlier litigation that was the subject of the collateral estoppel argument to illustrate that the holding at issue had not been fully litigated). Although in the cited Tenth Circuit case the court declined to invoke collateral estoppel based on the alternative holdings before it, it did so without analysis of the competing doctrines. *Turney v. O'Toole*, 898 F.2d 1470, 1472 n.1 (10th Cir. 1990). Thus, it is not clear at all that the Tenth Circuit would refuse to give preclusive effect to alternative holdings in all circumstances. It is respectfully submitted that this Court should await the outcome of a decision by that single circuit once it confronts that issue rather than predict that there will be a split, albeit a very shallow one at best.

Petitioner cites to a single decision of the Federal Circuit, *Hill-Rom Co. v. Kinetic Concepts, Inc.*, 209 F.3d 1337 (Fed. Cir. 2000), in an effort to support its position. *Hill-Rom Co.*, however, is consistent with the Third Circuit's decision. In *Hill-Rom Co.*, the accused patent infringer asserted patent invalidity as an affirmative defense, but not as a counterclaim.

Id. at 1340. After a trial, the court held that the defendant's products did not infringe the patent. *Id.* The court also rejected the affirmative defense of invalidity, but made no reference to that defense in its final judgment. *Id.*

On appeal, the defendant argued that if the court were to uphold the judgment of non-infringement, it should vacate the portion of the judgment relating to validity of the patent. *Id.* at 1344. The Federal Circuit reaffirmed the general rule that a district court may resolve the issue of invalidity even where the court finds that the patent is not infringed, *id.*, which is *consistent* with the decision of the Third Circuit. The Federal Circuit, however, went on to say that there was no need for it to address the validity issue because that issue was not addressed in the lower court's judgment and, therefore, would not have collateral estoppel effect in future litigation. *Id.* Here, in stark contrast, determination by the Trademark Trial and Appeal Board that there was no likelihood of confusion was a significant part of that tribunal's judgment.

Question 3

Petitioner asserts that by precluding petitioner from litigating the issue of likelihood of confusion, the Court of Appeals "departed from the long held principal [sic] that collateral estoppel or issue preclusion will not apply where application of the doctrine would harm a public interest." Pet. 19. Contrary to petitioner's assertion, it already had litigated the likelihood of confusion issue, resulting in a finding that there was none. There was "no question that likelihood of confusion was a central issue in the cancellation proceedings," Pet. App. 16a, and that petitioner fully participated in those proceedings, Pet. App. 56a ("In the

earlier action, [petitioner] filed its answer denying the allegations of priority and likelihood of confusion between the marks . . . , participated in discovery, cross-examined Cosmair's witnesses, submitted trial evidence, briefed the case on the merits, and attended an oral hearing before the Board."). Petitioner could have admitted likelihood of confusion and litigated the issue of priority only. Fully represented by counsel, it vigorously defended the likelihood of confusion allegation and went so far as to raise an affirmative defense of no likelihood of confusion. The Trademark Trial and Appeal Board held that there was no likelihood of confusion. The Court of Appeals affirmed a dismissal based on collateral estoppel. There was no record that the application of collateral estoppel would harm a public interest.[5] Petitioner's assertion is without factual support and misstates the record.

Question 4

Petitioner argues that the Third Circuit was mistaken when it held that petitioner could have appealed the Trademark Trial and Appeal Board's ruling on likelihood of confusion despite the fact that petitioner prevailed on that issue. As a threshold matter, that is not a proper issue inasmuch as nowhere does petitioner allege that it attempted to appeal but was not permitted to do so.

In all events, petitioner is mistaken when it asserts that it could not have appealed. Petitioner cites *Partmar Corp.*, addressed above, for the proposition that "findings such as the TTAB's findings respecting likelihood of confusion in

5. Based on the Trademark Trial and Appeal Board's decision, the only supportable public interest argument is the one that favors competition.

the instant case, do not form the basis for the application of estoppel." Pet. 22. *Partmar Corp.*, however, supports a contrary conclusion. As noted, Partmar, after prevailing on the issue of the legality of its franchise agreement with Paramount, appealed the court's decision to dismiss its antitrust counterclaims, but did not appeal the court's ruling on the issue of the legality of its agreements. Because Partmar was precluded from relitigating the legality issue, the court's dismissal of its counterclaims was proper.

After addressing Partmar's decision not to appeal the legality of the franchise agreement, this Court stated, "[w]hile Partmar did not appeal, it might have." *Partmar Corp.*, 347 U.S. at 100 n.6. Appealability, as this Court explained, does not turn on whether or not the appealing party prevailed, but on whether the finding was necessary to the judgment such that collateral estoppel would apply. The Trademark Trial and Appeal Board analyzed the issues of likelihood of confusion and priority. Its judgment, based on those grounds, dismissed the petition to cancel. Those alternative, independently sufficient grounds for the decision are each entitled to preclusive effect.

Moreover, under that tribunal's rules, "any 'party to a [TTAB] proceeding who is dissatisfied with the decision of the board' may appeal. *Trademark Trial and Appeal Board Manual of Procedure* § 901.01 (2d ed. 2004)." Pet. App. 28a. That rule does not invite an appeal to "excise portions" of an opinion or to appeal "dicta or precatory language." It allows a party who is "dissatisfied with the decision" to appeal.

CONCLUSION

For the foregoing reasons, respondents respectfully request that the petition for a writ of certiorari be denied in its entirety.

Respectfully submitted,

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